

Celebrating Our 100th Anniversary In 1972

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THE GRAND UNION COMPANY



Annual Report 1971

DIRECTORS and OFFICERS

The Grand Union Company

DIRECTORS

*THOMAS C. BUTLER	<i>Chairman of the Board</i>
EMERSON E. BRIGHTMAN	<i>Executive Vice President</i>
HELEN G. CANOYER	<i>Former Dean, School of Home Economics, University of Massachusetts</i>
*S. WILLIAM GREEN	<i>Regional Administrator, U.S. Department of Housing and Urban Development</i>
IRVING KAHN	<i>Partner, Abraham & Co., Securities New York City</i>
ROBERT J. McDONALD	<i>Partner, Law firm of Sullivan & Cromwell, New York City</i>
WILLIAM H. PREIS	<i>Senior Vice President</i>
*ARTHUR J. QUINN	<i>Chairman of the Executive Committee; President, The New York Bank for Savings</i>
*JOHN E. RAASCH	<i>Former President and Chairman Board of Directors, John Wanamaker</i>
*CHARLES G. RODMAN	<i>President and Chief Executive Officer</i>
ARTHUR ROSS	<i>Executive Vice President and Managing Director, Central National Corporation, Investments New York City</i>
EARL R. SILVERS, JR.	<i>Administrative Vice President and Assistant to the President</i>
*LAURENCE A. TISCH	<i>Chairman of the Board of Directors, Loews Corporation</i>
*Executive Committee	

OFFICERS

CHARLES G. RODMAN	<i>President and Chief Executive Officer</i>
EMERSON E. BRIGHTMAN	<i>Executive Vice President</i>
THOMAS R. DOYLE	<i>Senior Vice President</i>
WILLIAM H. PREIS	<i>Senior Vice President</i>
EARL R. SILVERS, JR.	<i>Administrative Vice President and Assistant to the President</i>
BYRON J. CRONIN	<i>Vice President</i>
ALAN C. GOULDING	<i>Vice President</i>
J. BARRON LEEDS	<i>Vice President</i>
RALPH D. LYTLE	<i>Vice President</i>
JOHN D. O'CONNELL	<i>Vice President</i>
JAMES G. POULOS	<i>Vice President</i>
VINCENT J. VENINATA	<i>Vice President</i>
CHARLES H. HAIGHT	<i>Treasurer</i>
LEONARD WOLFRAM	<i>Secretary and General Attorney</i>
JOHN H. MILBANK	<i>Assistant Treasurer and Controller</i>
BAXTER T. DUFFY	<i>Assistant Secretary</i>
FREDERICK H. GUNTSCHE	<i>Assistant Secretary</i>

Transfer Agent

*The Chase Manhattan Bank, N.A.
1 Chase Manhattan Plaza
New York, N. Y. 10015*

Registrar

*Chemical Bank New York Trust Company
20 Pine Street
New York, N. Y. 10015*



FINANCIAL HIGHLIGHTS 1971

	1971	1970
Sales	\$1,304,411,306	\$1,200,830,604
Income before income taxes and extraordinary charge	26,738,046	30,921,426
Income taxes	12,720,000	15,180,000
Income before extraordinary charge	14,018,046	15,741,426
Extraordinary charge	1,000,000	—
Net income	13,018,046	15,741,426
Income per common share:		
Before extraordinary charge	2.16	2.42
Extraordinary charge16	—
Net income	2.00	2.42
Cash dividends per common share80	.80
Net income as a percent of sales	1.00	1.31
Working capital	61,273,928	63,937,032
Ratio of current assets to current liabilities	1.76 to 1	1.88 to 1
Average common shares outstanding	6,435,156	6,437,146
Number of common stockholders	15,036	14,641

CONTENTS

2	To Our Stockholders
4	Review of Operations
6	100th Anniversary Section
12	Consolidated Statements of Income
12	Accountants' Report
13	Changes in Financial Position
14	Consolidated Balance Sheets
16	Notes to Financial Statements
17	Ten Year Financial Summary

ANNUAL MEETING

The annual meeting of stockholders of The Grand Union Company will be held at 10 A.M. on Wednesday, May 24, 1972, in the Bergen and Passaic Rooms of the Marriott Motor Hotel, Interstate Route 80 and Garden State Parkway Interchange 159, Saddle Brook, New Jersey.

A notice of the meeting, a proxy statement and form of proxy are being mailed with this report to each stockholder of record as of April 5, 1972.

**THE
GRAND
UNION
COMPANY**

100 BROADWAY
EAST PATERSON
NEW JERSEY 07407

TO OUR STOCKHOLDERS

Our sales reached a new high for the ninth consecutive year during fiscal 1971, increasing 8.6% to \$1,304,411,306 in the 52-week period ended February 26, 1972.

Net income, before an extraordinary charge to provide for losses on the disposition of certain retail facilities, was \$14,018,046, or \$2.16 per share of common stock, based on the average number of shares outstanding during the year. This represented a decrease of 10.9% from our 1970 after-tax income of \$15,741,426, or \$2.42 per share of common stock. Net income after the extraordinary charge of \$1,000,000 was \$13,018,046, or \$2.00 per share of common stock.

Many companies in the highly competitive retail food business in recent months have responded to the sharp increases in the cost of goods purchased and higher costs of operations by lowering margins to increase sales. This increased competitive activity coupled with sharp increases in our own costs of doing business, particularly in store selling expenses, were the primary reasons for our lower rate of profit in 1971.

We have complied with the wage and price regulations imposed by the federal government as a part of its economic stabilization program. For several years we were able to match increased wages with increased productivity, but during the past year wage increases greatly exceeded productivity increases. This trend must be stopped, and we have put into effect more stringent cost control programs throughout the company. It is of great national importance that the inflationary wage-price spiral be controlled.

Prospects for 1972

Consumer income has been rising since the year began, and this generally signals improved business conditions. The U. S. Department of Agriculture expects food expenditures this year to approach \$125-billion, an increase of more than 5% over last year.



CHARLES G. RODMAN, *President*

As the economy gains momentum, Federal officials are forecasting a healthy pickup in real growth with a slower rise in prices. The present outlook is for an increase in consumer spending, a higher level of private investment and larger government expenditures at the federal, state and local level. Larger social security and welfare payments, and a further rise in Federal personal income tax exemptions should also stimulate consumer spending in 1972.

With a return to an expanding economy, additional job opportunities should ease the unemployment rate from its relatively high level, further adding to income gains. All these developments point to a strong demand for food, clothing and other consumer goods in 1972. The effectiveness of the national programs to slow the rate of inflation will be a most important factor in determining profitability in the year ahead.

Avenues of Continued Growth

We will continue to expand the company's major divisions which operate the Grand Union supermarkets, Grand Way general merchandise discount stores, E-Z Shop convenience food stores and Grand Rx prescription drug stores. Continued development is also planned for the Triple-S Stamp Company and North American Equipment Corporation. Further description of our development plans is given under the Review of Operations section later in this report.

Along with physical expansion, the company is working continuously to improve upon all aspects of its retail operations to deliver a better total consumer value and, through aggressive, imaginative advertising, pricing and promotion programs, to increase its share of market.

Other important steps have been taken.

Grand Union and the Dart Drug Corporation have entered into a joint venture to build and operate 75,000 to 80,000 square foot combination stores in the Washington, D. C. metropolitan area. Each store will contain a supermarket and a promotional drug store under a single roof. Such stores will afford consumers an opportunity for dramatically new one-stop discount shopping.

A new division of our wholly-owned Stop and Save Trading Stamp Corporation has been formed to enter the fast-growing catalog-showroom industry. Three large catalog showrooms are to open by Fall, each stocked with more than 6,000 general merchandise items for sale. Included will be fine jewelry, housewares, appliances, radio, television and stereo equipment, sporting goods and luggage. We plan to expand this new enterprise as rapidly as an organization can be developed.

Director Elected

Robert J. McDonald, an attorney and partner in the New York law firm of Sullivan and Cromwell, was elected to the Board of Directors, succeeding Lawrence C. Marshall. Mr. McDonald is widely known as a tax authority and served on President Nixon's Task Force on Taxation.

John E. Raasch Retires

John E. Raasch, a member of the Board of Directors since 1948 and Chairman of the Board from 1960 until 1966, will not seek re-election this year. Mr. Raasch, the former President of John Wanamaker, was instrumental in guiding our company through years of continuous growth. We thank him for his most valuable services rendered over a period of great change in the company.

New Corporate Vice President Named

Alan C. Goulding was elected a corporate Vice President in charge of merchandising for the supermarket

division of the company. Mr. Goulding joined Grand Union in 1949 as a clerk and had served as Vice President and General Manager of the Sunrise and Florida Divisions before being named an Operations Vice President and Executive Assistant to Thomas R. Doyle, Senior Vice President.

Executive Realignment

The duties of a number of corporate officers were realigned during the year in order to provide sound management of the company's continued growth and its increasingly diversified activities.

Emerson E. Brightman, Executive Vice President, now has responsibility for the new E-Z Shop Division of convenience food stores, the 26-store Grand Way general merchandise division, and Grand Patio restaurants. He continues to be responsible for manufacturing, distribution and consumer relations.

Thomas R. Doyle, Senior Vice President, who has been directing operations of the Supermarket Division, has been assigned the additional responsibility of supermarket merchandising. In addition, Mr. Doyle is now responsible for Grand Rx prescription drug operations in northern states.

Earl R. Silvers, Jr., Administrative Vice President, has also been made Assistant to the President.

Vincent J. Veninata, Vice President - Personnel, has been given additional responsibilities for research and productivity.

Consumer Affairs Expansion

Grand Union's Department of Consumer Affairs greatly expanded its activities during 1971.

Its widely acclaimed "Consumer Bill of Rights" program in the New York metropolitan area stressed four points: The customer's right to choice, satisfaction, knowledge and direct access to company officials on complaints.

A six-week nutrition information program conducted on a chain-wide basis by the department last Fall and designed to increase public awareness

of the importance of good nutrition was awarded first place in the Consumer Awareness Category of a nationwide advertising merit award competition.

A Very Special Year

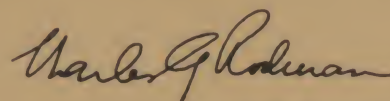
This is an especially exciting year for Grand Union. We are celebrating the 100th Anniversary of the company's founding in 1872.

As 1972 began, we put into effect a year-long program of Centennial advertising, promotion, merchandising and public relations activities. The slogan of the celebration, "People Pleasers Since 1872", re-emphasizes the company's pledge of complete customer satisfaction that has been the keystone of its steady growth through the years.

You will enjoy, I know, the pictorial highlights of the company's first century in the special Anniversary Section of this report.

Our objective during the company's Centennial year will be to present to the consuming public a modern, growing, diversified retailing organization that deserves patronage today, as in the past, on the basis of quality merchandise offered in attractive surroundings and sold at fair prices by friendly, competent people.

I should like to express my appreciation to the thousands of Grand Union men and women who make up our organization, as well as to our Directors. It has been their loyalty and hard work that has enabled the company to grow to its present stature. With their continued help, the company will begin its second century in the strongest position of its long history.



Charles G. Rodman
President

April 24, 1972

REVIEW OF OPERATIONS

Supermarket Operations

The growth pattern of the Supermarket Division continued during 1971. Twenty-two supermarkets were opened with almost 473,000 square feet of space. Eight food stores were enlarged and renovations costing \$50,000 or more were completed at 18 stores.

Twenty-three older food stores were closed in 1971. Where desirable, those operating in profitable areas were replaced with larger, more modern facilities.

The company has embarked on a vigorous expansion program for 1972, both in new stores, enlargements and renovations, and in support facilities. We plan to open 33 new supermarkets with more than 900,000 square feet of space and to renovate 21 stores and enlarge another 10 units.

In keeping with modern consumer demands, our new stores are being built in sizes up to 40,000 square feet. They offer easy, one-stop shopping with a wide variety of both food and general merchandise under one roof.

To keep pace with the increasing volume of supermarket sales, two new support facilities are under construction. A \$2.7-million, fully refrigerated meat and produce distribution center will open soon in Miami. This modern 89,000 square foot structure will serve the company's 53 supermarkets in Florida.

A meat distribution center adjacent to the Waterford Distribution Center is under construction and should be completed by November. The 71,000 square foot facility will supply the 142 stores of the Empire Division in up-state New York, Vermont and Massachusetts.

More than 50 acres of land has been acquired in Lincoln Park, New Jersey, for construction of a new food distribution center to supplement existing facilities in the New York-New Jersey metropolitan area. Construction is expected to begin during 1973.

Grand Way

The Grand Way general merchandise division will begin to open new stores again in 1972 with a 70,000 square foot unit under construction in Vestal, New York. This will bring to three the number of Grand Ways in the Tri-City area of Binghamton, Endicott and Johnson City.

The company is also remodeling and expanding its 90,000 square foot Paramus, New Jersey, Grand Way. Four other Grand Ways in Horseheads, Wappingers Falls and Rome, New York, and Closter, New Jersey, are to be renovated. Last year, extensive renovations were completed at Grand Way discount stores in Plattsburgh, New York, South Burlington, Vermont, and Waterbury, Connecticut.

Sites for two additional Grand Ways are under lease or negotiation.

Five Grand Ways were closed in 1971. They were in Keansburg, New Jersey, Miami, Tampa and St. Petersburg (2), Florida. The closings were part of a continuing program of consolidation and streamlining of Grand Way's operations to produce greater profitability.

E-Z Shops

Favorable results from the company's convenience

(A) University of Connecticut Extension Specialists provided advice on nutrition to customers of selected stores in company's 1971 award-winning Nutrition Awareness Campaign.

(B) New food distribution facilities are under construction in Florida (above) and Waterford, New York, to support supermarket growth.

(C) Twenty-two supermarkets were opened in 1971. Thirty-three, a 50% increase, are planned for 1972.



A



B



C

food store project which was started in 1969 has led to establishment of a new division of the company to operate its E-Z Shops. Plans are under way for a rapid increase in the number of these small stores, of about 2,400 square feet each, that are designed to provide customers with a variety of basic foods and general merchandise 365 days a year from 7 A.M. until 11 P.M.

There are now six E-Z Shops in operation in the Albany-Kingston area of New York State. Three more are under construction and 20 others are in various phases of negotiation.

Development of more than 100 E-Z Shops is envisioned by the end of 1975.

Triple-S Blue Stamps

For the 16th consecutive year, the company's wholly-owned Stop and Save Trading Stamp Corporation set records both in the number of Triple-S Blue Stamps issued and the number of savings books redeemed. More than 100-million books of Triple-S Blue Stamps have been issued since the organization was founded in 1955.

During the year, six new redemption centers were constructed, three were relocated to larger quarters and two were enlarged. There are now 62 Triple-S redemption centers and 23 sub-redemption centers in operation.

Construction of two new Triple-S Blue Stamp redemption centers is scheduled this year with enlargements and relocations planned for four others.

Grand Rx

Three 8,000 square foot prescription drug sections were opened during the year in Florida and New Jersey supermarkets. For 1972, 14 new drug sections are planned in the 6,000 to 8,000 square foot range. Three of the planned units are in the Florida Division, where the company currently operates 22 prescription drug units. The remaining units are scheduled for stores in New Jersey and New York.

Grand Patio Food Service

After operating three experimental free-standing restaurants in New Jersey for more than a year, it has been decided to discontinue further expansion of this type of facility because of rapidly escalating costs.

These units, together with our chain of 32 in-store eating facilities, will now be operated by the Grand Way Division. Expansion in the restaurant and snack bar field will be confined to in-store facilities for the foreseeable future.

North American Equipment Corporation

North American Equipment Corporation showed moderate growth in 1971 despite unfavorable economic conditions during most of the year. This wholly-owned subsidiary, which manufactures materials handling equipment, anticipates significant growth in 1972.

Prospects for its newly developed automatic pallet handling system, LOGIC-FLOW, are excellent. Two prototype installations have been completed at distribution centers of major corporations.



B



C



A

(A) Greater emphasis is being placed on general merchandise in newer supermarkets, 30,000 to 40,000 square feet in size.

(B) A new Grand Way will open in Vestal, New York, in 1972. This is the architect's rendering. Five other Grand Ways are being renovated or enlarged.

(C) E-Z Shop convenience food stores are being constructed at a rapid rate. More than 100 are planned by 1975.

THE GRAND UNION STORY

FAMILY ALBUM

Just 20 when he opened his own food retailing business on September 1, 1872, in Scranton, Pennsylvania, **Cyrus Jones** sold coffee, tea, spices, baking powder and flavoring extracts door-to-door and from a single small store. He saw the business grow to a very large size before he died at age 77 in 1929. Grand Union then operated 685 small chain grocery stores and some 120 home delivery routes traveled by 1,100 salesmen. Sales had reached \$37-million and net profits \$1-million a year.

Brother of Cyrus, trained in bookkeeping and early an experienced grocery clerk, **Frank Jones** entered the business within a year of its founding, probably as an equal partner. Named President of The Grand Union Tea Company when it was incorporated on December 31, 1901, he held the post until his retirement in 1910. He died in New York City in 1927 at 79.

Starting as a clerk in a Michigan store, **William Burke** was made the company's first Corporate Secretary in 1901. He succeeded Frank Jones as President in 1910; died in 1912.

Older son of Cyrus Jones, **Arthur Jones** joined the company as a clerk in the Chester, Pennsylvania, store after studying accounting. He became a store manager in 1903, was transferred to New York headquarters that year and made Secretary-Treasurer of the company. He succeeded William Burke as President and held that office for four years. Resigning in 1916 at 39, he retired to Florida.

Another son of Cyrus, **Harry Jones** started selling merchandise door-to-door and worked his way through all manufacturing departments at New York headquarters. Succeeding Arthur as President in 1916, he served until 1924, when he became Chairman. Retiring in 1928, he was the last member of the Jones family to be associated with the company. At his death in 1971, aged 89, Harry Jones was President of the Sussex and Merchants National Bank of Newton, New Jersey.

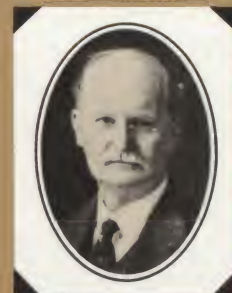
A Williams College graduate of 1903 who had worked his way up to Operations Vice President in another food chain before being named President of Grand Union in 1924, **J. S. Weed** guided the company successfully through the depression and World War II. He became Chairman of the Board in 1947 as Lansing P. Shield succeeded to the presidency. J. S. Weed retired in 1948.

A Rutgers graduate and Air Corps pilot in World War I, **L. P. Shield** came to Grand Union in 1924 as Chief Accountant and was Treasurer by 1928, a Vice President a year later. During his presidency, from 1947 until his unexpected death in early 1960, Shield made Grand Union a front runner in the race to develop supermarkets and move with the customers from cities to suburbs. He also initiated the company's Grand Way general merchandise discount store division. Sales multiplied from \$99,818,829 to \$603,468,099 and profits rose from \$1,528,648 to \$7,354,045.

Thomas Butler joined the company in 1918 as a clerk in Newark, New Jersey, and became Treasurer in 1936, Vice President and Treasurer in 1958, President in 1960, Chairman and Chief Executive Officer in 1966. Before retiring from active management in 1968, he had supervised further expansion of both the company's supermarket and general merchandise divisions. During the eight years that he headed Grand Union, sales increased by 50% — from \$600-million to more than \$900-million — and profits rose 60% to \$11.4-million.



CYRUS D. JONES
Founder



FRANK S. JONES
Co-Founder
President, 1901-1910



WILLIAM J. BURKE
President, 1910-1912



ARTHUR A. JONES
President, 1912-1916



THOMAS C. BUTLER
President, 1960-1966
Chairman & Chief Executive Officer,
1966-1968; Chairman, 1968-



HARRY L. JONES
President, 1916-1924
Chairman, 1924-1928



J. SPENCER WEED
President, 1924-1946
Chairman, 1947-1948



LANSING P. SHIELD
President, 1947-1960

THE FIRST 100 YEARS 1872 - 1972

Founded in 1872, The Grand Union Company has grown steadily through an often turbulent, always exciting century.

Coping with the exigencies of the financial panic of 1873 was the first crisis. Among others have been the stock market crash of 1929 and the Great Depression that followed. Today we are deeply involved in the nation's struggle to control inflation through economic stabilization.

Many of the company's early route salesmen and store managers were veterans of the Civil War. Thousands of its people served in the Spanish-American War, World Wars I and II and in Korea. Today some are in Vietnam.

The population of the United States has grown from 40-million to more than 200-million and 13 states have joined the Union since the company was founded.

Four-legged horsepower provided the principal form of locomotion in 1872. Since then, horsepower has been adapted and utilized under the hoods of millions upon millions of cars and trucks to create history's most mobile people.

Wilbur and Orville Wright made their historic first heavier-than-air flight at Kitty Hawk when the company was celebrating its 31st anniversary. As it turned 97, U. S. Astronaut Neil Armstrong became the first man to walk on the moon.

During these dramatic years, Grand Union was steadily evolving. It grew from a one-man, one-store food retailing enterprise to a widely diversified merchandising organization. Its 26,000 people today operate 574 stores ranging from small convenience food outlets to huge supermarkets and even larger combination food/general merchandise/drug stores. The handful of customers in the 1870's has grown to more than 3-million a week in the 1970's.

(A) First store, opened in 1872 in Scranton, Pennsylvania.

(B) Headquarters opened in 1897 in Brooklyn, New York.

(C) An early motto was: "You See Our Wagons Everywhere".

(D) Twenty tons of groceries is an average load for a modern diesel rig.

(E) Calendars, like this one of 1907, were once popular advertisements.

(F) Cover detail from an 8-page full-color rotogravure advertising circular used to announce 100th Anniversary sale in January, 1972. Five million copies were printed.



A



B



C



D



E



F

A



THE FIRST 100 YEARS 1872 - 1972

(A) Private label products have been pleasing Grand Union customers since 1872. Here is a sampling of more than 1,000 now being sold.

(B) (C) Baking powder and flavoring extracts were once best sellers. These were prepared and packaged from 1897 to 1928 in the company's Brooklyn headquarters and manufacturing plant.

(D) (E) Since shortly after its founding, Grand Union has encouraged customer loyalty by giving premiums. Today's customers receive Triple-S Blue Stamps redeemable for a wide variety of quality merchandise. Earlier generations of customers received Tea Checks, forerunners of trading stamps.

(F) This Grand Union cookbook, copyright 1902, was one of a number of popular company publications of the early twentieth century. Others included an illustrated dictionary, pictorial views of New York City, a book of sermons and an illustrated children's book, "Our Animal Friends".



E



F



(A) (B) (C) Coffee grinders, frying pans, carpet sweepers and flat irons were among the highly prized premiums that could be obtained for "Tea Checks" in the 1800's. Color television sets are among more than 2,000 items available to today's Triple-S Blue Stamp savers.

(D) (E) The cover of the company's 50th Anniversary catalogue of premiums issued in 1922 makes an interesting contrast with that of the 1971 "Luxurious Living" catalogue of the Triple-S Blue Stamp Company.

(F) (G) Communications with employees has long had top priority at the company. "The Tea Man" was popular and well-read in the 1920's. "Progress" is its equally popular successor. As the headline indicates, it is serving as a principal means of keeping all Grand Union people up-to-date on Centennial celebration activities in 1972.

THE GRAND UNION STORY

From a tightly-knit family enterprise operated for 56 years by founder Cyrus D. Jones, his brothers and sons, Grand Union has evolved into a publicly-held company with more than 15,000 shareholders. It has paid regular quarterly cash dividends on its common stock to these owners, many of whom are employees, amounting to \$56-million dollars since 1944.

Sales of the company since 1872 have risen spectacularly: From \$12,000 that first year to \$1-billion, 304-million in 1971.

Profitability has been continuous except for one year. There was a loss of \$284,879 in 1924, despite a new high in sales of more than \$24-million. The company was back in the black the next year, and has remained there.

Grand Union's first three consecutive million dollar profit years came in 1929, 1930 and 1931. As of 1935, net had dropped to a depression low of \$184,430. Earnings did not exceed \$1-million again until 1946. From \$1½-million that year they had increased to more than \$13-million as of 1971.

What will Grand Union's business be like in the year 2072? As different, undoubtedly, as the company's business today differs from the Jones Brothers retailing operation that Cyrus Jones began a hundred years ago this September.

Whatever the changes of the coming century, Grand Union expects to keep abreast of them; a little ahead of them if possible.

(A) (B) (C) (D) (E) Tiny service stores of the 1800's and the small, limited line self-service stores of the early 1900's have long since been replaced by modern supermarkets up to 40,000 square feet and carrying as many as 8,000 items. Among the major factors underlying the evolution of the food store from miniscule to mammoth have been: The automobile, good roads, refrigeration and the concentration of population in urban areas — first the cities; then the suburbs.

(F) (G) Roses were often a part of the company's early advertising art, as in this turn-of-the-century calendar. Today, there is a Grand Union Centennial Rose. Especially commissioned in observance of the company's 100th Anniversary, the red hybrid tea rose has been a best-seller this Spring.



THE FIRST 100 YEARS 1872 - 1972

A century from now it is hoped that the company can look back — as it does today — with pride on having participated in a truly remarkable achievement of inestimable value to millions upon millions of Americans.

Grand Union is part of a low-cost, farm-to-table system of food distribution that has reduced the cost of eating in the United States amazingly in a century.

Families of factory workers in New England surveyed in 1874-75 were paying more than half of what they earned, 58%, just to put food on the table. Today, eating at home costs the American family, on the average, less than 16% of after-tax income. Our people are now the best fed in history, and at the lowest cost. By the same token, they are the most affluent. When one spends so little for the basic necessity, food, the major portion of income can go into houses, clothes, cars, education, travel.

That's a proud heritage for Grand Union. It is a heritage we shall seek to preserve.

(A) One of the more dramatic events in the company's contemporary history was a major fire in the large supermarket on the ground floor of Grand Union's present headquarters in East Paterson, New Jersey. That took place in July, 1956. No one was hurt, but the store was a total loss. With unprecedented speed, the market was replaced by a 50,000 square foot supermarket under canvas in just 7 days. The temporary store in three air-conditioned tents flourished through the summer and into fall, when the completely rebuilt headquarters market was re-opened.

(B) Grand Union set up and stocked the first working model of a 10,000 square foot U. S.-style supermarket to be seen in Europe in 1956. This "American Way" supermarket, the major attraction at the Third International Food Congress in Rome, Italy, sparked an interest on the part of food retailers that led to the establishment of hundreds of supermarkets in the major countries of Western Europe.

(C) Three years after heading the committee of U. S. food retailers which arranged the highly successful Rome venture, Lansing P. Shield, then President of Grand Union, was invited by Richard M. Nixon, then Vice President of the United States, to set up a supermarket display in the American National Exhibition in Moscow. To be sure that visitors to the exhibit understood the facts about food distribution in the United States, a half-million illustrated folders printed in Russian were distributed. Premier Nikita Krushchev is shown visiting the exhibit with Mr. Nixon and Mr. Shield.



CONSOLIDATED STATEMENTS OF INCOME and REINVESTED EARNINGS

The Grand Union Company and Subsidiaries

	<i>Fifty-two weeks ended Feb. 26, 1972</i>	<i>Fifty-two weeks ended Feb. 27, 1971</i>
Sales	\$1,304,411,306	\$1,200,830,604
Cost of sales	1,022,219,844	938,961,032
Gross profit	282,191,462	261,869,572
Operating and general expenses:		
Salaries and wages to employees in the sales department	125,536,508	112,039,887
Other selling, administrative and general expenses	129,364,214	118,391,069
	254,900,722	230,430,956
Operating income	27,290,740	31,438,616
Other deductions, net	552,694	517,190
Income before income taxes and extraordinary charge	26,738,046	30,921,426
Income taxes (note 2)	12,720,000	15,180,000
Income before extraordinary charge	14,018,046	15,741,426
Extraordinary charge (note 8)	1,000,000	—
Net income	13,018,046	15,741,426
Reinvested earnings, beginning of period	39,544,803	29,109,825
	52,562,849	44,851,251
Less, cash dividends:		
Common, 80¢ per share	5,148,418	5,148,603
Preferred	127,226	157,845
	5,275,644	5,306,448
Reinvested earnings, end of period	\$47,287,205	\$39,544,803
Income per common share (note 3):		
Income before extraordinary charge	\$2.16	\$2.42
Extraordinary charge16	—
Net income	\$2.00	\$2.42

See accompanying financial notes

ACCOUNTANTS' REPORT

To the Stockholders and Board of Directors, The Grand Union Company, East Paterson, N. J.:

We have examined the consolidated balance sheet of The Grand Union Company and Subsidiaries as of February 26, 1972 and the related statements of income and reinvested earnings and changes in financial position for the fifty-two week period then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We previously examined and reported upon the consolidated financial statements of the Company and Subsidiaries for the fifty-two weeks ended February 27, 1971.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of The Grand Union Company and Subsidiaries at February 26, 1972 and February 27, 1971, and the results of their operations and the changes in their financial position for the fifty-two week periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

April 6, 1972
520 Broad Street, Newark, N. J. 07102

LYBRAND, ROSS BROS. & MONTGOMERY

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

The Grand Union Company and Subsidiaries

FUNDS PROVIDED:

	<i>Fifty-two weeks ended Feb. 26, 1972</i>	<i>Fifty-two weeks ended Feb. 27, 1971</i>
Income before extraordinary charge	\$14,018,046	\$15,741,426
Charges to income not requiring funds:		
Depreciation and amortization, straight line basis	12,865,000	11,569,000
Deferred income taxes and investment tax credit	20,000	552,000
Working capital provided from operations	26,903,046	27,862,426
Extraordinary charge affecting working capital	(1,000,000)	—
Sale of stock under stock option plans	437,637	110,834
Book value of property disposals	4,820,350	1,933,168
Changes in other assets and liabilities, net	597,710	615,006
	<u>31,758,743</u>	<u>30,521,434</u>

FUNDS USED:

Dividends	5,275,644	5,306,448
Property additions	26,060,904	21,587,244
Reduction in long term debt	1,300,000	1,250,000
Purchases of company's preferred and common stocks	1,785,299	239,146
	<u>34,421,847</u>	<u>28,382,838</u>
Increase (decrease) in working capital	<u>\$(2,663,104)</u>	<u>\$ 2,138,596</u>

CHANGES IN WORKING CAPITAL:

Increase (decrease) in current assets:		
Cash	\$ 852,323	\$ (4,863,283)
Temporary cash investments	(689,533)	4,329,922
Accounts receivable	352,789	195,053
Inventories	2,968,933	4,953,157
Deferred federal income taxes	1,024,186	(155,174)
Prepaid expenses and operating supplies	152,307	(1,138,744)
	<u>4,661,005</u>	<u>3,320,931</u>
Increase (decrease) in current liabilities:		
Promissory notes due within one year	50,000	—
Accounts payable and accrued liabilities	7,364,459	1,816,816
Federal income taxes	(90,350)	(634,481)
	<u>7,324,109</u>	<u>1,182,335</u>
Increase (decrease) in working capital	<u>\$(2,663,104)</u>	<u>\$2,138,596</u>

See accompanying financial notes

CONSOLIDATED BALANCE SHEETS

ASSETS

	<u>Feb. 26, 1972</u>	<u>Feb. 27, 1971</u>
Current assets:		
Cash	\$ 10,090,153	\$ 9,237,830
Temporary cash investments, at cost (approximates market)	10,473,851	11,163,384
Accounts receivable	5,985,953	5,633,164
Inventories, at lower of average cost or market	108,006,914	105,037,981
Deferred federal income taxes	3,482,362	2,458,176
Prepaid expenses and operating supplies	3,368,062	3,215,755
Total current assets	<u>141,407,295</u>	<u>136,746,290</u>
Property, at cost:		
Land	5,836,001	4,354,874
Buildings	10,140,420	9,108,263
Fixtures and equipment	123,887,826	115,976,659
Leasehold improvements	33,430,272	29,760,048
	<u>173,294,519</u>	<u>159,199,844</u>
Less, allowances for depreciation and amortization	76,093,855	70,375,164
Net property	<u>97,200,664</u>	<u>88,824,680</u>
Investments and other assets:		
Investment in affiliate, at cost (note 1)	2,926,235	2,926,235
Other assets and deferred charges	824,253	821,851
Cost in excess of amounts of net assets at dates of acquisitions ..	7,411,998	7,411,998
Total investments and other assets	<u>11,162,486</u>	<u>11,160,084</u>
Total assets	<u>\$249,770,445</u>	<u>\$236,731,054</u>

See accompanying financial notes

THE GRAND UNION COMPANY and SUBSIDIARIES

LIABILITIES

	<u>Feb. 26, 1972</u>	<u>Feb. 27, 1971</u>
Current liabilities:		
Promissory notes due within one year	\$ 1,300,000	\$ 1,250,000
Accounts payable and accrued liabilities	74,824,172	67,459,713
Federal income taxes	4,009,195	4,099,545
Total current liabilities	80,133,367	72,809,258
Promissory note payable through 1973	1,300,000	2,600,000
Subordinated debentures, 4½ %, due 1978	550,000	600,000
Liability for unredeemed trading stamps, less amount included in current accrued liabilities (1972, \$8,283,366; 1971, \$7,368,347)	2,800,000	2,450,000
Deferred federal income taxes	10,546,190	9,856,223
Deferred investment tax credit	1,024,800	1,370,400
Other noncurrent liabilities and reserves	1,147,792	1,171,617
	<u>\$ 97,502,149</u>	<u>\$ 90,857,498</u>

STOCKHOLDERS' EQUITY

4½ % cumulative preferred stock, \$50 par value, callable at \$52 per share; authorized 116,000 shares, issued and outstanding 50,123 and 64,758 shares, respectively (note 3)	\$ 2,506,150	\$ 3,237,900
Common stock, \$5 par value, authorized 9,000,000 shares, issued 6,609,078 shares (notes 3 and 4)	33,045,390	33,045,390
Additional paid-in capital (note 3)	74,471,700	74,391,727
Reinvested earnings (note 5)	47,287,205	39,544,803
	157,310,445	150,219,820
Less, treasury stock at cost (202,723 and 169,452 common shares, respectively) (note 3)	5,042,149	4,346,264
	<u>\$152,268,296</u>	<u>\$145,873,556</u>
Total liabilities and stockholders' equity	<u>\$249,770,445</u>	<u>\$236,731,054</u>

See accompanying financial notes

NOTES TO FINANCIAL STATEMENTS

(1) Principles of Consolidation: The consolidated financial statements include the accounts of all wholly owned subsidiaries. At February 26, 1972, the company's investment in affiliate represented approximately 26% of the shares of beneficial interest in Mortgage Growth Investors, a real estate investment trust. The company's equity in Mortgage Growth's net assets as of November 30, 1971 and net income for the eleven months then ended, based upon audited financial statements, approximated \$4,023,000 and \$500,000, respectively.

(2) Income Taxes: Income tax expense includes the following:

	1971	1970
	(in thousands)	
Federal income taxes:		
Current provision	\$11,070	\$12,943
Deferred taxes, net, resulting principally from accelerated depreciation	366	1,051
Amortization of deferred investment tax credit applicable to 1967 and prior years	(346)	(344)
	<u>11,090</u>	<u>13,650</u>
Other income taxes	1,630	1,530
	<u>\$12,720</u>	<u>\$15,180</u>

The estimated investment tax credit which became available during 1971 and 1970 (\$550,000 and \$200,000 respectively) was taken into income as a reduction of the current provision under the flow-through method of accounting.

(3) Stockholders' Equity and Net Income Per Share:

(a) Common Stock: During fiscal 1971 the company purchased 59,106 shares of common stock at a cost of \$1,358,553 and issued 25,835 shares of common stock as a result of the exercise of stock options.

(b) Preferred Stock: During fiscal 1971 14,635 shares were purchased and retired by the company.

(c) During fiscal 1971 additional paid-in capital increased \$79,973, representing the excess of par value over cost of treasury preferred stock retired (\$305,003), less the excess of cost of treasury common stock purchased over the amount received from employees under the stock option plan (\$225,030).

(d) Net income per share of common stock is based on the average number of shares of common stock outstanding during the period after giving effect to dividends on preferred stock. Outstanding stock options do not enter into the computation because they do not have a material dilutive effect.

(4) Stock Options: A summary of the share activity of the 1964 stock option plan during fiscal 1971 follows:

Options outstanding, beginning of year ..	125,507
Options exercised, cancelled or expired ..	(35,221)
Options outstanding, end of year	<u>90,286</u>
(held by approximately 1,371 employees at prices ranging from \$17.55 to \$24.50 per share.)	

The outstanding options are exercisable in varying amounts through December 11, 1974 with options to purchase 78,245 shares exercisable at February 26, 1972. No further options may be granted under the plan.

(5) Restrictions on Dividends: The note and debenture agreements contain certain dividend and other restrictions. At February 26, 1972, all of the re-invested earnings are free of such restrictions.

(6) Property Leases: The company operates principally in leased premises. Minimum annual rents for leases at February 26, 1972 are as follows:

Leases Expiring	Number of Leases	Minimum Annual Rents
1972-1974	258	\$ 4,085,000
1975-1979	232	5,505,000
1980-1984	138	5,895,000
1985-1989	63	3,815,000
1990-2011	28	1,475,000
	<u>719</u>	<u>\$20,775,000</u>

In addition, the company is contingently liable on 49 leases applicable to stores sold or not yet opened, expiring prior to 1993, and having minimum annual rents approximating \$2,460,000.

(7) Pension Plan: The company maintains a trustee pension plan covering all full-time employees, except those covered by labor union pension plans to which the company contributes. The company's policy is to fund pension cost accrued. Pension expense was \$1,021,000 and \$812,000 for fiscal 1971 and 1970, respectively.

(8) Extraordinary Charge: In 1971 the company decided to discontinue certain supermarkets and Grand Way stores. Accordingly, the extraordinary charge consists of estimated losses in connection therewith less related federal income tax benefit of \$1,000,000, of which \$700,000 is deferred.

TEN YEAR FINANCIAL SUMMARY

(Dollar amounts in thousands except for per share figures)

FOR THE YEAR	1971	1970	1969	1968	1967 (53 weeks)	1966	1965	1964	1963	1962
Sales	1,304,411	1,200,831	1,113,374	1,017,413	935,864	836,242	779,683	740,040	667,417	630,530
Income before income taxes and extra- ordinary charge (1)	26,738	30,921	32,886	27,399	22,125	20,304	20,352	18,572	14,370	10,204
Income taxes (1)	12,720	15,180	17,690	14,080	10,745	9,400	9,500	9,000	7,350	5,150
Income before extraordinary charge	14,018	15,741	15,196	13,319	11,380	10,904	10,852	9,572	7,020	5,054
Extraordinary charge	1,000	—	—	—	—	—	—	—	—	—
Net income	13,018	15,741	15,196	13,319	11,380	10,904	10,852	9,572	7,020	5,054
Per common share data (2):										
Income before extra- ordinary charge	2.16	2.42	2.30	2.02	1.81	1.74	1.74	1.54	1.12	.80
Extraordinary charge ..	.16	—	—	—	—	—	—	—	—	—
Net income	2.00	2.42	2.30	2.02	1.81	1.74	1.74	1.54	1.12	.80
Cash dividends (3)80	.80	.80	.59	.56	.54	.51	.49	.48	.47
Stock dividends	—	—	—	5%	5%	5%	4%	4%	2%	3%
Net income as a percent of sales	1.00%	1.31%	1.36%	1.31%	1.22%	1.30%	1.39%	1.29%	1.05%	.80%
AT THE YEAR END										
Ratio of current assets to current liabilities	1.76 to 1	1.88 to 1	1.86 to 1	2.10 to 1	2.03 to 1	1.97 to 1	1.94 to 1	1.96 to 1	2.08 to 1	2.14 to 1
Equity per common share (2)	23.38	22.15	20.50	19.13	17.50	16.20	15.00	13.77	12.71	12.06
Number of stores at year end:										
Supermarkets	542	543	534	537	532	531	527	513	499	493
Grand Way stores	26	31	31	31	30	30	25	25	23	23

(1) For 1966 and prior years taxes on income other than federal were classified as administrative and general expenses and not as income taxes.

(2) Adjusted for common stock dividends.

(3) Dividends on common stock were paid at an annual rate of 80 cents per share in 1969 through 1971 and at an annual rate of 60 cents per share in prior years.

THE GRAND UNION COMPANY

100 BROADWAY, EAST PATERSON, NEW JERSEY 07407

